

Evaluating the Impact of Organisational Culture on the Entrepreneurial Orientation of Small and Medium Enterprises in South Africa

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ABSTRACT: *SMEs play a pivotal role in the economic growth and development of nations, especially developing countries confronted with a plethora of socio-economic challenges. However, it remains indistinct on whether SMEs are a sustainable panacea to such challenges given their failure rate. On that backdrop, it becomes crucial to identify factors which can improve SMEs' performance in South Africa. This paper aimed at investigating the impact of organisational culture on the entrepreneurial orientation of SMEs in South Africa. A quantitative research method was used and 103 SMEs participated in the survey. The random sampling technique was used. Self-administered questionnaires were utilised to collect data in a survey. A sample of 89 SME owner/managers participated in the survey. Data analysis included descriptive statistics, Pearson's correlation and regression analysis. The Cronbach's alpha was used to measure reliability. The results indicated that SMEs display average levels of EO and average levels of organisational culture. Furthermore, the results showed a significant positive relationship between organisational culture and (EO) of SMEs. SME owner/managers are encouraged to align organisational culture and EO to maximise the gains.*

Keywords: entrepreneurial orientation, organisational culture, SMEs, South Africa

Introduction

Dada (2014) indicates that there is no universally acceptable definition for SMEs. According to Mahembe (2011), one of the reasons why it is difficult to define a SME is the fact that each and every country has its own definition. SMEs are defined differently in different nations (Etuk, Etuk & Baghebo, 2014). SMEs can be defined based on qualitative and quantitative definitions (Gibson & Van der Vaart, 2008; Mahembe, 2011; Wiese, 2014). According to the National Small Business Act of South Africa 1996 as amended in 2003, a small business as "a separate and distinct entity including cooperative enterprises and non-governmental organisations managed by one owner or more, including its

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branches or subsidiaries if any is predominantly carried out in any sector or sub-sector of the economy mentioned in the schedule of size standards, and can be classified as an SME by satisfying the criteria mentioned in the schedule of size standards" (Government Gazette of the Republic of South Africa, 2003).

"Growing the number of SMEs in the economy, and growing the size of existing SMEs, are both vital objectives for South Africa's future prosperity" (SBP, 2013:8). A strategy towards promoting SMEs is a remarkable milestone towards achieving South Africa's developmental needs such as sustainable employment, reducing poverty as well as income inequality. SMEs are credited for sustaining most economies in Africa (Ene & Ene, 2014). It is the innovative ability of SMEs which has resulted in the rapid expansion of economies of countries such as, India, Malaysia, Indonesia, Taiwan and Hong Kong (Odukwu, 2006). Approximately SMEs constitute 91% of businesses in South Africa. Chinomona and Pooe (2013) note that the SME sector contributes above 50% towards GDP in South Africa and a job creation capacity of 61%. Furthermore, the SMEs sector is considered to be a great productive source in the job creation process because it is labour intensive unlike capital intensive large organisations (Ali, Rashid & Khan, 2014; Agwu & Emeti, 2014). Kambwale, Chisoro and Karodia (2015) remark that small businesses' activities have income distribution ability as most of their businesses employ the lowly skilled people hence boosting their purchasing power. Jain and Chen (2013) add that SMEs have a multiplier effect on employment creation as each SME can increase its branches and hence its workforce overtime.

Despite the active role SMEs play, they seriously experience a slow growth rate and premature death. Similarly, Ngek and Smit (2013) note that regardless of the over whelming support for SMEs towards job creation, it is only a few high quality SMEs that critically play this role. Most small businesses, especially in Africa, do not have growth prospects to become large firms. According to World Bank (2015), small businesses third income countries exhibit lower growth rate compared to their first world country small businesses. Fatoki and Garwe (2010) reinforce the argument by indicating that South African SMEs face high business discontinuance. SMEs in South Africa continue to fail regardless of the substantive support from government and private initiatives (Cant & Wiid, 2013). Ramukumba (2014) remarks that in South Africa SMEs are failing to surpass the projected growth target for required job creation due to a plethora of challenges. Oni and Fatoki (2012) warns that this high rate of premature death among SMEs creates uncertainty among policy makers on whether if this sector is the solution to a plethora of challenges haunting South Africa. The major idea behind this chapter is that established SMEs must be sustained.

According to Awang et al. (2010), a significant number of SMEs fail because of the inability to have an EO strategy in their organisations. According to Fatoki (2012), SMEs need to adopt entrepreneurial orientation in order to attain organisational growth. Many factors can impact on the entrepreneurial orientation of SMEs. Brettel, Chomik and Flatten (2014) identify organisational structure, leadership styles and organisational culture as some of the key drivers of entrepreneurial orientation. Shihab, Wismiarsi and Sine (2011) indicate that there is a link between organisational culture and EO of SMEs. Abdullah, Shamsuddin, Wahab and Hamid (2014) note that it is internal factors like organisational

culture that has a strong influence on the EO of SMEs. Many studies about the organisational culture and EO relationship have been conducted outside South Africa. It is the scope of this paper to investigate the relationship under discussion from a South African perspective.

Objectives: The objectives of the study were: (1) to identify the entrepreneurial orientation (EO) of SMEs (2) to explore the organisational culture of SMEs, (3) to determine the nexus between organisational culture and the entrepreneurial orientation of SMEs.

Hypotheses

H₀: There is no significant relationship between organisational culture and the entrepreneurial orientation of SMEs

H₂: There is a significant relationship between organisational culture and the entrepreneurial orientation of SMEs

Literature review

This study derives its theoretical support from the entrepreneurial orientation theory and the organisational culture theory.

Theory of Entrepreneurial Orientation

The EO theory has gained popularity in the entrepreneurship field. Studies about EO has proliferated just after the inception of the concept by Mintzberg (1973). These studies include Khandwalla (1976/ 1977), Miller (1983); Covin and Slevin (1989), Miller and Friesen (1982) as well as Lumpkin and Dess (1996). All these studies concur on the importance of EO to firms which desire to attain rapid growth in sales and staying ahead of competitors. Miller (1983) argue that EO can better understood through three behaviours such as innovativeness, proactiveness and risk taking. He argues that these three factors distinguish an entrepreneurial mindset from the rest. However, Lumpkin and Dess (1996) believe that the EO scale can be detailed if competitive aggressiveness and autonomy are added to the existing scale. This study focuses on the three EO factors propounded by Miller (1983).

Innovativeness

The concept of innovation can be traced to the work of Schumpeter (1934). Schumpeter (1942) argues that the process of creative destruction yield innovation. Schumpeter (1983) identified innovation as the most critical element of EO. Hence, from this idea, innovation is the critical component of entrepreneurial orientation. It marks the basis from which firms can improve existing product lines which enables them to tap into new markets. For SMEs to be innovative, they should foster an atmosphere that promotes creativity among employees. According to Shahraki and Bahraini (2013), to be innovative firms need to adapt and adopt new technologies rather than focusing on old methods.

Proactiveness

Proactiveness entails that a firm should always be ahead of competitors instead of reacting to their actions. Lumpkin and Dess (1996) seminal paper point out that proactiveness enables a firm to enjoy first mover advantages such as higher profit margins and brand establishment ahead of competitors. Lumpkin and Dess (1996) further explain that firms that are proactive are able to manipulate the environment thereby creating demand for their products. Lumpkin and Dess (1996) indicate that proactiveness is likely to co-vary with innovativeness since both of them emphasise creativity and new product introductions.

Risk taking

Risk taking has various meanings depending on the context it is used (Lumpkin & Dess, 1996).Covin and Slevin (1989) elucidate that the willingness of entrepreneurs and managers to take risks in order to favour change and innovation determines the extent to which a firm demonstrate entrepreneurial orientation. Risk taking is the propensity to venture into the unknown with an expectation to make profit. The concept of risk taking is based on the concept that tapping into highly risky ventures is associated with high returns (Roux & Coupey, 2007).Nevertheless, risk taking should not be confused with gambling in the context of entrepreneurial orientation (Murimbika, 2012). Hence, firms should take calculated risk, which is based on the probability of failure and success before they can commit resource.

The EO theory sets a solid ground to understand how SMEs can benefit by promoting the entrepreneurial behaviour in their organisations. Literature indicates that those firms, which adopt EO stay ahead of those without EO in terms of sales growth and innovations. However, EO is influenced by a variety of factors. A firm planning to adopt EO should check for such factors to yield high gains from EO. Musa, Ghani and Ahmad (2011), identify organisational size, organisational structure and leadership style as crucial factors which can influence EO. The authors of this study believes that organisational culture greatly affect the EO of SMEs.

Organisational culture theory

According to Tharp (2009) the origins of studies about organisational culture dates back to the 1930s. Worse still, the term organisational culture defies a uniform definition in the existing literature (Hatch & Zilber, 2012; Puri & Bharti, 2015). Zaheer, Rehman and Ahmad (2006) concur by pointing out that a single definition for organisational culture proves to be elusive in the extant literature. Different However, Schein (1992) defined organisational culture as “a pattern of shared basic assumptions that the group learned as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way you perceive, think, and feel in relation to those problems.” Other studies on organisational culture such as Tharp (2009) concur with Schein’s definition. In most cases organisational culture will become the personality of the entire organisation as it defines what the organisation does and what it does not do. This serves as a template which dictates the recruitment policy, marketing strategies and the type of

business deemed acceptable by the organisation. Similarly, Abdullah et al. (2014) express that organisational culture can be used as a referent point for desired worker behaviour.

Schein (1992) viewed organisational culture as comprising three domains: basic underlying assumptions, espoused values and artefacts. However, studies such as Cameron and Quinn (1999) describe organisational culture based on the four competing values model. According to Ubius and Alas (2009), the dominant organisational cultures are hierarchy, clan, market and adhocracy organisational culture. The framework propounded by Quinn and Rohrbaugh (1983) as cited in Ubius and Alas (2009) helps to explain the four different organisational types exhibited by organisations. According to Cameron and Quinn (1999), the framework tries to clarify whether an organisation is internally or externally orientated or alternatively if it values autonomy versus bureaucracy.

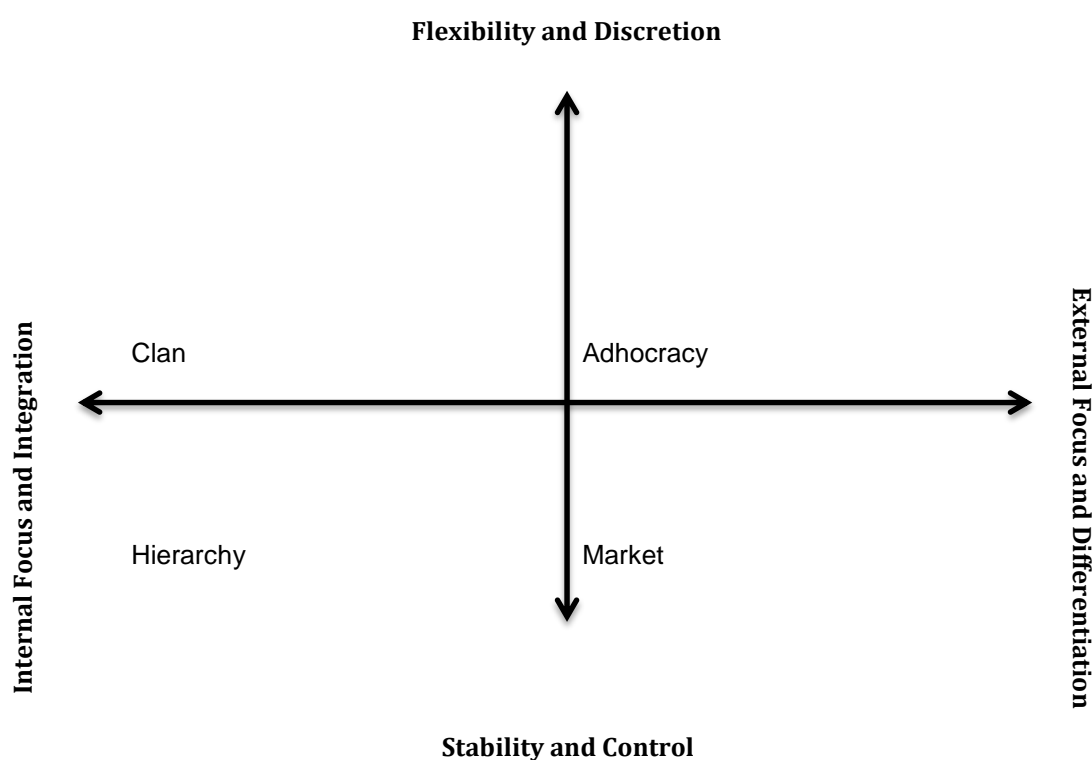


Figure 1: The Competing Values Framework

Source: Adopted from Ubius and Alas 2009

According to Ubius and Alas (2009). The y-axis vertical axis indicates the organisation's flexibility or central control in dealing with issues. The x-axis represents organisations that value control and follow hierarchical organisational culture which emphasises documented procedures and processes. On the other continuum are organisations which are flexible (clan culture) with less rules and regulations. The adhocracy and market culture types focuses on the external part of the organisation while the clan and hierarchy types focuses on the internal effectiveness of the organisation (Ghannay & Mamlouk, 2015).

Hierarchical 87tilized87ionalculture

According to Ubius and Alas (2009), this form of organisational culture is characterised by a formalised and structured place of work. Nelson (2015) remarks that routine work, chain of command, defined responsibilities, centralisation, rules and policies characterise the hierarchical organisational structure. The long-term concerns of the organisation are stability, predictability and efficiency. Ghannay and Mamlouk (2015) suggest that this type of organisational culture exhibit high levels of bureaucracy. Cameron and Quinn (2006) concur by indicating that hierarchical organisational culture stems from Weber's classical attributes of bureaucracy: rules, specialization, meritocracy, hierarchy, separate ownership, impersonality, and accountability. Tharp (2009) gives McDonald's as one of the organisations which uses hierarchical 87tilized87ional culture. Nelson (2015) notes that hierarchical 87tilized87ional culture can reduce a 87tilized87ion's competitiveness due to lack of flexibility and creativeness.

The clan culture

Ubius and Alas (2009) indicate that clan culture is characterised by teamwork, employee involvement programs and corporate commitment to employee. According to Cameron and Quinn (2006), in the clan organisational culture people are rewarded for completing a task as a team. Furthermore, Cameron and Quinn (2006) elucidate that the clan culture holds the assumption that the environment can best be managed by treating customers as partners and inciting loyalty in employees through teamwork and employee development programmes. Top management in the clan organisational culture acts as mentors to their employees.

The market culture

"The market culture is focused on transactions with external constituencies such as suppliers, customers, contractors, licensees, unions, regulators and so forth. The core values are competitiveness and productivity" (Ubius & Alas, 2009:92). According to Beytekđn, Yalçinkaya, Dođan and Karakoç (2010), the market culture primarily focuses on positioning the organisation on the external environment by actively using monetary exchanges to support the initiatives. Furthermore, the market culture emphasises goal attainment. The management clearly sets the goals in quantitative economic terms and effectively communicate it to employees. Beytekđn *et al.* (2010) remark that market culture driven organisations aim to be market leaders all the time.

Adhocracy culture

According to Ubius and Alas (2009), a major goal of an adhocracy is to foster adaptability; flexibility and creativity where uncertainty, ambiguity and/or information overload are typical. This type of organisational culture is highly entrepreneurial in that it encourages risk taking, openness to new ideas, innovation and experimentation (Ghannay & Mamlouk, 2015). According to Beytekđn *et al.* (2010), in adhocracy cultures the leaders are risk takers and innovative and as a result they earn respect and trust from their subordinates. On that note, both the organisation and employees emphasise on being

active problem solvers as well as being innovative in their area of expertise. Beytekdin *et al.* (2010) point out that innovation brings the entire organisation together in an adhocracy culture. In adhocracy culture, success is determined by the random inception of new ideas, products and services and unique technologies (Beytekdin *et al.*, 2010).

The four competing variables suggested by the theory set the platform to understand how a SME can respond to both internal and external environments. Furthermore, the theory helps to uncover the appropriate and flexible organisational cultures such as clan, market and adhocracy which are favourable for entrepreneurial orientation development within SMEs. Tharp (2009) argue that an organizational culture can be used as a source of competitive advantage. He went further to say that, organisations should align these four competing variables to their goals if they wish to excel in the market. The competing values model is relevant for this study because it has been used in similar studies showing high levels of reliability (Brettel, *et al.*, 2014).

Organisational culture and entrepreneurial orientation

The link between organisational culture and EO has been widely researched in line with large organisations than in SMEs (Shihab *et al.*, 2011). Zaheer *et al.* (2006) argue that small firm culture is more informal, although not necessarily more relaxed. An organisational culture that is innovative enables the business to enter into profitable ventures and opportunities in an effective manner. According to Adelekan (2016:165), "in order to build innovative culture certain requirements must be met, involving six kinds of attitudes: the ability of managers to take risks, encouraging creativity, participation of all employees in building innovation-oriented culture, responsibility of both managers and employees for their actions, allowing employees to develop their interests and use their unique talents, developing the company's mission, which the employees will identify with; providing employees with a sense that their work is meaningful and has a positive impact on the achievement of objectives." Maher (2014) add that an organisational culture which supplies enough resources to employees and rewards new ideas tend to promote EO. Puri and Bharti (2015) remark that organisational culture can act as a guideline that can be used to align employee behaviour towards achieving innovation and flexibility organisational goals. Organisational culture influences the creativity and innovativeness of employees. Shihab *et al.* (2011) point out that organisational culture is a determinant of EO in that it inspires employees to surpass their expectations and to come up with creative and innovative ways to improve customer satisfaction as well as overall organisational competitiveness. According to Adelekan (2016), firms which wish to incorporate EO in their businesses ought to adapt, change and align their organisational culture to the prevailing business environment. Engelen *et al.* (2015) found out that an adhocracy organisational culture effectively supports EO whereas hierarchical organisational culture inhibits EO. Similarly, Naranjo-Valencia, Jiménez-Jiménez and Sanz-Valle (2016) note that flexible externally oriented organizational cultures favours EO while stability oriented ones hinder the implementation of EO. An organisational culture which supports innovation has given Apple company a cutting edge to survive in the competition infested industry (Tharp, 2009). A study by Khalid, Pahi and

Abdullah (2016) indicate that more supportive organizational cultures yield high levels of EO. Brettelet *et al.* (2014) argue that externally orientated organisational cultures play a crucial role towards fostering EO within organisations. Chadwick *et al.* (2015) found a significant positive relationship between EO and three organisational culture dimensions: clan, market and adhocracy. Naranjo-Valencia *et al.* (2016) results show a significant positive relationship between adhocracy organizational culture and innovation. Empirical studies like, (Shihab *et al.*, 2011; Chadwick, *et al.*, 2015) report a significant relationship between organisational culture and EO. Organisational culture is a determinant of EO in that it inspires employees to surpass their expectations and to come up with creative and innovative ways to improve customer satisfaction as well as overall organisational performance. Therefore, it is hypothesised that there is a significant positive relationship between organisational culture and entrepreneurial orientation.

Methodology

This paper utilized a quantitative research methodology. The respondents were randomly selected to give each SME a chance to be selected. Self-administered questionnaires were utilized in a survey to collect data from the respondents following similar studies (Arham, *et al.*, 2013; Arham, 2014). According to Monette *et al.* (2011:164), "a questionnaire is a set of questions recorded to collect data in a survey where participants fill in the questions in the absence of the researcher." Closed ended questions were used where respondents were limited to respond to a set of answers provided in the questionnaire. The questionnaire for the study consisted of three sections; (1) Biographical questions (2) Entrepreneurial orientation (3) Organisational culture. The questionnaire was adapted from existing literature. This questionnaire was used following similar studies on EO (Fatoki, 2012; Soininen, 2013; Mahmood, & Hanafi, 2013) where the tool showed high levels of reliability and validity. The questionnaire to measure EO was adapted from Miller (1983) and consisted of 9 items which measure innovativeness, risk taking and proactiveness. On the other hand, the questionnaire to measure organisational culture was adapted from Ubius and Alas (2009) and consisted of 20 items which measure different factors such hierarchical, clan, adhocracy and market organisational culture. Licket scale questions ranging from: strongly disagree to strongly agree were utilised in the study to obtain data. Data analysis included descriptive statistics, regression analysis and Pearson correlation coefficient. Reliability was measured using the Cronbach's alpha.

Research results and discussion

Response rate

Table 1 below reflects the response rate of the study. Two hundred questionnaires were distributed to SMEs in Polokwane Municipality and eighty-nine questionnaires were returned. The response rate was forty-five percent. Generally, the low response rate among SMEs is well documented.

Table 1: The Response Rate

Respondents	No. of questionnaires sent	No. Returned	Response rate
SME owners/managers	200	89	45%

Descriptive statistics**Entrepreneurial orientation****Table 2: Descriptive Statistics of Entrepreneurial Orientation**

Measures	Mean	Standard deviation
My business has introduced a number of new lines of products and services recently.	3.40	1.66
My business is generally inclined towards new product and development.	3.31	0.72
We have experienced dynamic changes in our products and services in recent times.	3.21	0.60
My business aims to always be the first to introduce new products or services in the market.	3.53	0.59
My business always take a proactive stance when dealing competitors.	3.20	0.57
Due to the dynamic nature of the business environment, our business take a bold stance in order to meet our goals.	2.87	0.59
My business tend to be aggressive in order take advantage of opportunities.	2.37	0.58
My business has a huge appetite for high risk/high return projects.	2.33	0.62
Total entrepreneurial orientation	3.05	0.62
Cronbach's alpha	0.78	

Biographical information

The results indicated that most of the respondents were males (63%) compared to only (37%) females, falling in the 31-40 age group. This is consistent with studies such as (Tsele, 2015; Masocha & Dzomonda, 2016). Civelek, Rahman and Kozubikova (2016) further explain this gap by asserting that males are more risk taking and innovative than females hence they end up owning more entrepreneurial businesses. From the findings it was discovered that the majority (38%) of the respondents of the study have matric qualification. The results indicate that the majority of SMEs (34%) in the study are sole proprietors with majority of them in the retail sector. It was discovered that majority of SMEs employ 1-5 people which indicate that SMEs' contribution to employment creation in South Africa is weak due to the fact that most of them do not grow (FinMark Trust, 2015). Worryingly the results showed that most of the SMEs (41%) have been in operation for between 1 and five years.

Table 2 indicates the results of the entrepreneurial orientation of owners/managers of SMEs in Polokwane municipality. The results indicated that the owners/managers display average levels of entrepreneurial orientation as indicated by a mean of 3.05 (SD 0.62). Considering the single factors for EO, the results indicate innovativeness as the highest, followed by proactiveness and risk taking respectively. The highest score on innovativeness indicates that SMEs invest much in innovation than on the other two areas. The results of the study are consistent with the findings of similar empirical studies such as (Fatoki, 2012; Arham, 2014).

Factor analysis results for organisational culture

Table 3: Factor Analysis Results for Organisational Culture

Organisational Culture Measures	Factor 1 Market	Factor 2 Adhocracy	Factor 3 Clan
6. In our organisation customer interests are never ignored in decision making.	0.83		
8. During conflict everybody tries to solve it quickly and mutually profitable.	0.78		
9. It is very important to feel market changes and react contemporarily.	0.61		
15. Workers of any division have equal perspectives.		0.79	
16. In our organisation information is readily available to everyone.		0.71	
18. In our organisation new ideas are applied immediately before they are obsolete.		0.59	

10. Agreement is easily achieved even concerning hard problems in the organisation.			0.81
12. In our organisation it is not allowed to talk about people behind their back.			0.60
13. In a group everyone should put maximum effort to achieve a common goal.			0.58
Eigen value	4.26	3.21	2.13
Percentage of variance explained (53.82%)	29.43	27.35	23.44
Cronbach's alpha	0.76	0.78	0.77

Source: Principal components factor analysis with varimax rotation. Kaiser-Meyer-Olkin (KMO) test of sampling adequacy =0.79; Barlett Test of Sphericity (BTS) = 469.001, $p=0.001$

Table 3 above present the factor analysis results for organisational culture. As shown above three factors with Eigen values greater than one were identified. These are Factor 1 Market culture, Factor 2 Adhocracy culture and Factor 3 Clan culture. Questions 1-5 which measure hierarchy culture were dropped, as their factor loadings were very low.

Hypothesis Testing

Correlation results

Table 4: Correlation Results

Correlations			
		EO	Organisational culture
EO	Pearson Correlation	1	.751*
	Sig. (2-tailed)		.010
	N	89	89
Organisational culture	Pearson Correlation	.751*	1
	Sig. (2-tailed)	.010	
	N	89	89

Relationship between organisational culture and entrepreneurial orientation

The correlation between EO and organisational culture is ($r=0.751$, $p=0.010$). The results indicate that there is a significant positive relationship between EO of SMEs and organisational culture. This supports

the alternative hypothesis (H_2) that there is a significant positive relationship between organisational culture and EO of SMEs. The results are consistent with similar studies such as (Shihab *et al.*, 2011:93; Chadwick, *et al.*, 2015).

Regression analysis results

Table 5: Regression Analysis Results

Independent variables	Beta	T	Sig
Organisational culture	0.185	51.489	.001

Source: Data Analysis. Dependent variable, Entrepreneurial orientation. Sig.>0.05

Relationship between organisational culture and entrepreneurial orientation

The regression analysis results between organisational culture and EO are (B=0.185, sig=0.001). The results support the hypothesis that there is a significant positive relationship between organisational culture and the entrepreneurial orientation of SMEs. The results led to a conclusion to reject the null hypothesis (H_0) and accept the alternative hypothesis (H_2). The results are consistent with studies such as (Shihab *et al.*, 2011; Chadwick, *et al.*, 2015).

Conclusion

The argument of this study was that entrepreneurial orientation is a possible antidote to a plethora of challenges causing SMEs in South Africa to fail. Therefore, it was of significance to understand the factors that improve the entrepreneurial orientation of SMEs in South Africa. The results indicated that the owners/managers display average levels of entrepreneurial orientation. In addition, the results showed that SMEs display average levels of organisational culture. Furthermore, the study also revealed that SMEs use flexible organisational cultures with an external focus. From hypothesis testing, the null hypothesis was rejected. The final decision was to accept the alternative hypothesis. It was concluded that organisational culture is significantly linked to EO of SMEs. This calls for a strong need to improve on organisational culture factors as they are good predictors of EO in firms. Furthermore, recommendations to policy makers and SMEs owners/managers on the different measures they can embark on to improve EO were suggested.

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